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SUBJECT: TIGHTENING MORTGAGE LENDING RULES TO SHORE UP THE
BANKING SYSTEM AND CURB INFLATION

¶1. (U) SUMMARY: Qatar is considering tighter rules for residential and commercial mortgages that would minimize the banking system's exposure to real estate market fluctuations, more tightly regulate property prices, and reduce liquidity in an effort to curb soaring inflation. The proposed rules include raising down payments required from mortgage borrowers, reducing maximum loan terms, and lowering the maximum installment repayment to no more than the half of the borrower's salary. End Summary.

¶2. (U) Driven by deep concern that any downturn in the property market or the local economy could hit the country's banks hard, the Qatar Central Bank (QCB) proposed in early June a package of rules to tighten mortgage lending practices. QCB proposes to increase a home buyer's minimum mortgage down payment to 30 percent of the home's value (up from the current ten percent), reduce the maximum loan term from 30 years to 20 years, and limit monthly mortgage installment payments to 50 percent of the buyer's salary. QCB also seeks to mandate, for the protection of property buyers, that licensed and registered assessors carry out all property valuations in the country.

¶3. (SBU) The latest warning about the exposure of Qatar's banking sector to real estate market fluctuations came in a report issued by the Kuwait-based Global Investment House. It advocated diversifying banks, lending away from mortgage and signature loans. Another warning came from Standard & Poor's. This rating agency reported that banks had accumulated consumer and real estate loans that could leave them vulnerable to market swings. Despite their strength, Standard and Poor's credit analyst Mohamed Damak noted, "Qatar's banks have been quickly building up untested consumer and real estate loans over the past three years, increasing their vulnerability to an economic downturn or a real estate sector correction." Regional financial news provider ArabianBusiness.com separately reported recently that over 69 percent of property buyers in Qatar borrowed 71 percent or more of the purchase price of their home, and that 15.38 per cent of these buyers signed up for mortgages covering 90 percent or more of the cost of the new properties.

¶4. (SBU) Analysts we approached for comment expect the package of reforms to reduce the number of property buyers falling behind on their payments. They also expect that the reforms will lower Qatari banks' exposure to fluctuations in the property market. Analysts also comment that the proposed measures should be viewed not only as a necessary reform of the housing market but also as a means to curb inflation, which soared to 14.75% in March amidst surging rents and food and commodity prices.

¶5. (SBU) Mohamad Moabi, head of research at Qatar National Bank, told us that the package of QCB proposals would not significantly affect the supply of money in the market or significantly curb inflation. Moabi said the measures were meant to ease competition between commercial banks, which

have been accumulating non-performing loans. He pointed out that personal loans increased by 30 percent last year. Marios Maratheftis, Standard Chartered Bank's regional head of research, added that QCB's proposed curbs in mortgage financing could slightly tighten the money supply, but not enough to tame inflation in housing prices as long as real interest rates remain negative in real terms and Qatar's currency, the riyal, remains under pressure.

¶6. (U) Unable to use traditional tools to control the money supply due to the dollar-peg of 3.64 riyals to the dollar and Qatar's stated policy of making major monetary policy changes only in concert with the rest of the Gulf Cooperation Council countries, the QCB has taken a series of special steps to reduce the money supply. Examples include raising banks, reserve requirements, increasing sales of certificates of deposit, and tightening lending restrictions on home financing. Given the prevailing high inflation rates expected in Qatar for several years running and excess liquidity in the country's financial sector, local financial analysts predict more such measures are likely to follow.

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